

D. Minimum Renewables Purchase Requirement (“MRPR”)

Submitted by: Southern California Edison Company and Pacific Gas & Electric Company

1. Interpretation of Commission’s Goals and Rationale for Strategy

This proposal interprets the Commission’s December 20, 1995 policy on renewables to mean that proposals to implement the Commission’s direction should maintain the level of resource diversity within California and should achieve this objective by providing for competition among both existing and new resources. Maintenance of the level of resource diversity may be achieved by replacing existing projects with new projects. The policy does not require maintenance of diversity among renewable resources.

In order to provide flexibility in achieving this objective at the lowest cost, the Commission has indicated a preference for market-based approaches. The Commission has also recognized that all customers, including direct access customers and customers of investor-owned utilities and municipal utilities, should be responsible for achieving the objective of resource diversity.

This implementation proposal meets these objectives by establishing a renewables purchase obligation of 10 percent on all sellers of electricity to end-use customers under the Commission’s jurisdiction no later than January 1, 1998. Unless this obligation is extended statewide to all providers to end-use customers, including municipal utilities, through legislation by the end of the year 2000, the obligation would be eliminated. This obligation is imposed on providers to end-use customers subject to the requirement and may be fulfilled with solar, wind, biomass, and geothermal energy. The obligation is held fixed for the initial three years of the program.

2. Program Overview and Description

a. Overview

This proposal is designed to implement the Commission’s policy on renewables contained in the December 20, 1995 Policy Decision (D.95-12-063 as corrected and conformed by D.96-01-009) and further defined in the March 13, 1996 Roadmap Decision (D.96-03-022). In these decisions, the Commission indicated that its policy on renewables was designed to maintain California’s resource diversity and encourage the development of new renewable resources¹. The Commission indicated that its preferred approach for achieving these

¹“We are committed to establishing restructuring policies which maintain California’s resource diversity for existing resources as well as encourage development of new renewable resources.” “We continue to believe that a minimum renewables purchase requirement is the best approach to meet our resource diversity goals.” pp. 147, 150, D.95-12-063 as corrected and conformed by D.96-01-009.

objectives was through the establishment of a Minimum Renewables Purchase Requirement (MRPR) to be implemented through a tradeable credit program².

b. Principles

Principles governing the MRPR implementation proposal submitted by Southern California Edison Company (SCE or Edison) and Pacific Gas & Electric Company (PG&E) include:

1. Limits cost impacts to customers: Limits total customer cost exposure by incorporating a cost cap at 2 cents/kWh.
2. Encourages renewables competition and drive for efficiency more than other MRPR proposals: By not requiring rate bands, technologies are encouraged to develop methods to bring costs down to compete among market participants.
3. May meet CPUC decision requirements: This proposal was designed to conform with the specific details of the CPUC decision but may not reflect the preferred choice of its sponsors.

Comments of Orange County, Sonoma County, the City of Sacramento, NEO Corporation

We oppose this proposal because it ends in three years if the legislature does not act to make the program State wide. This is unfinanceable help. We oppose support for existing projects. SCE's inclusion of existing facilities who terminate Standard Offer Contracts is interesting. Nevertheless, it may solve a CTC problem at the expense of renewables. The idea of having the penalty for nonperformance act as a cap on the subsidy is excellent. It avoids cumbersome policing administration. However, we feel 2¢ is too low. We can probably support elements of this proposal when combined with the EDF proposal.

Comments of the Union of Concerned Scientists

Oppose.

Good points: Exclusion of hydro avoids subsidization of a mature, fully commercialized technology and problems with annual variability.

Bad points: Low 2 cent/kWh non-compliance charge, encourages non-compliance, turning competitive program into administrative program by creating non-compliance fund. Classification of non-compliance charge as business expense instead of a penalty allows for tax write-off, further decreases compliance incentive. Does not support renewables growth since MRPR does not increase. Does not adequately address issue that green marketers could double-dip by collecting RECs and charging more for energy. Will terminate in 2000 if not backed up by legislation.

²"Credits for meeting this requirement would be tradeable, similar to tradeable permits programs adopted by Congress in the Clean Air Act Amendments of 1990 and the South Coast Air Quality Management District's Regional Clean Air Incentive Market, in order to allow retail providers the most flexibility in meeting this requirement." p. 150, *ibid*.

Comments of Los Angeles Department of Water and Power (LADWP)

The procurement of renewable resources should be the responsibility of some state entity for the state power pool and the above-market costs of compliance should be borne uniformly by all customers served by the UDC on a non-bypassable basis. Rather than having many entities responsible for procurement of renewables, having one entity responsible for the state's procurement of renewable resources will minimize the transaction costs of compliance. The level and diversity of renewable resource mix should be established by the state legislature. The renewables program should be reviewed every five years or so.

Comments of Southern California Edison and Pacific Gas and Electric

[124 Words]

This is the simplest of the MRPR proposals. It has no separate biomass standard. It is based on energy only and requires annual, not monthly accounting. Moreover, it has two key features that benefit electric customers.

It has an implicit cost cap of two cents per renewable kwh. Therefore no retail provider has to pay more than a two cent premium, for renewable energy.

Second, it assigns the value of renewable credits from standard offer contracts to ratepayers. This is equitable because ratepayers have already paid for these renewable projects through high priced, standard offer contracts. Projects that negotiate out of standard offer contracts can get the value of credits, however. This sets up an incentive for QFIs to restructure their long term contracts.

Comments of CALSEIA/SEIA/CEC/ETDD

[122 Words]

OPPOSE

Low Credit Ceiling Defeats Purpose: Like the RPS proposal, MRPR would not encourage diversity or new resources development because 2 cent limit is too low to finance new plants with emerging technologies. While 2 cent cap will limit MRPR cost, even for existing renewables, this cap should be raised or substantial portion of existing renewable generation will be uneconomic resulting in shortage of credits, resulting in credit values above cap value and state having to sell substantial numbers of credits. Who will collect fees, how fees will be collected and what the state collected fees will be used for need to be established. Potential program elimination in Year 2000 makes it impossible to finance new plant construction, even for established renewable technologies.

Comments of the California Integrated Waste Management Board

Qualified Support with more conditions: This proposal is similar to other RPSs in its basic premise--all retail sellers must purchase a minimum amount of renewables.

The major concerns with the proposal are. One, that the non-compliance penalty may be so low that there may be a financial incentive to not comply with the purchase requirement. Secondly, it allocates RECs to the UDCs for all renewable generators which are under Standard Offer contracts, including ones paid at SRAC.

Finally, the pro-rata treatment of renewables that use fossil, such as biomass that use fossil fuels for start-up, may hurt certain generators and could be very difficult to monitor.

Comments of Don Augenstein

The cost limit, effectively a "REC cap" of 2 cents/kWh appears quite possibly too low to maintain the current level of renewables. In addition certain renewables' (wood, biogas) environmental benefits are not recognized; the proposal does not support a solid fuel biomass band. The proposal omits mention of electricity from biogas (possibly unintentionally). That renewable energy source should certainly be included. These are the main reservations with the MRPR approach as advanced by SCE and PG&E. Otherwise this proposal appears reasonable.

Comments of SoCAL Gas

Of all the minimum renewables purchase requirement proposals, this is the simplest and most straight forward. The proposal excludes hydro, a simple target of 10% of all kWh sold to all California end users is proposed, it eschews specific technology bands, and it provides for the purchase of renewable credits at a nonpunitive 2 cents/kWh, which SCE interprets as an upper bound to the cost of the program. Most appealing is the clear realization that the program should be fully reviewed every five years.

Comments of SDG&E

Oppose:

- * Unequal cost burden on consumers. Penalizes SDG&E's customers for not having previously been subjected to more high-priced ISO4s.
- * Additional annual cost to San Diego customers estimated at \$32 million based on a 2¢/kWh cap.
- * Shifts costs from customers in one region to another, raising rates for some and violating the Commission's policy against cost-shifting.
- * Inequitable for consumers because municipal customers pay no share of this proposal.
- * Primarily subsidizes already-subsidized existing projects instead of new development.
- * Inconsistent with electric restructuring; mandates distribution companies to maintain resource portfolio instead of relying on the competitive market.
- * Administratively burdensome and complex.

Comments of IEP

- Proposal creates barriers for QFs to engage in contract restructuring because the value of all credits accrue to UDC.
- Represents a reduction in level of renewables attained through existing state policy.
- Policing and enforcement mechanisms to ensure compliance are unclear; relies on unnamed: state agency and may require formation of new state agency.
- Minimizes likelihood that renewable energy is actually produced as a result of the policy because (1) penalties for non-compliance are set too low (2 cents/kWh) and (2) sunsets program after only two years (absent legislation).
- Ignores existing legislation fostering renewables; requires new legislation to ensure program continuance.